

DIAMOND STATE PORT CORPORATION

SINGLE AUDIT

JUNE 30, 2005

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Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards*

Independent Auditors' Report

To the Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

We have audited the financial statements of Diamond State Port Corporation as of and for the year ended June 30, 2005, and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Diamond State Port Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Diamond State Port Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards*

Independent Auditors' Report (Cont'd.)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Diamond State Port Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

This report is intended solely for the information and use of the audit committee, management and the Board of Directors of Diamond State Port Corporation, the Office of Auditor of Accounts and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

McBride, Shopa & Co

Wilmington, Delaware
August 11, 2005

Report on Compliance with Requirements
Applicable to Each Major Program and on Internal
Control over Compliance in Accordance with
OMB Circular A-133 and Schedule of Expenditures
of Federal Awards

Independent Auditors' Report

To the Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

Compliance

We have audited the compliance of Diamond State Port Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. Diamond State Port Corporation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Diamond State Port Corporation's management. Our responsibility is to express an opinion on Diamond State Port Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Diamond State Port Corporation's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Diamond State Port Corporation's compliance with those requirements.

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Report on Compliance with Requirements
Applicable to Each Major Program and on Internal
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Independent Auditors' Report (Cont'd.)

In our opinion, Diamond State Port Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

Internal Control Over Compliance

The management of Diamond State Port Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Diamond State Port Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Diamond State Port Corporation's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions

Report on Compliance with Requirements
Applicable to Each Major Program and on Internal
Control over Compliance in Accordance with
OMB Circular A-133 and Schedule of Expenditures
of Federal Awards

Independent Auditors' Report (Cont'd.)

that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Diamond State Port Corporation as of and for the year ended June 30, 2005, and have issued our report thereon dated August 11, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors of the Diamond State Port Corporation, the Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McBride, Shopa & Co

Wilmington, Delaware
August 11, 2005

DIAMOND STATE PORT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

Federal Grantor	Federal CFDA Number	Total Awards Expended
Program Title		
U.S. DEPARTMENT OF HOMELAND SECURITY:		
DIRECT PROGRAMS:		
Urban Areas Security Initiative Program	97.008	<u>\$ 1,439,175</u>
TOTAL DIRECT PROGRAMS		<u>1,439,175</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 1,439,175</u></u>

See accompanying note to schedule of expenditures of federal awards.

**DIAMOND STATE PORT CORPORATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes all the federal grant activity of Diamond State Port Corporation and is presented on the accrual basis of accounting.

DIAMOND STATE PORT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

PART A: SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Diamond State Port Corporation
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Diamond State Port Corporation, were disclosed during the audit.
4. Reportable conditions relating to the audit of internal control over the major federal award program were disclosed during the audit. None of these conditions are material weaknesses.
5. The auditor's report on compliance for the major federal award program for Diamond State Port Corporation expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program was the Urban Areas Security Initiative Program, CFDA #97.008.
8. The threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Diamond State Port Corporation did not qualify as a low risk auditee.

**DIAMOND STATE PORT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

PART B: FINDINGS – FINANCIAL STATEMENTS AUDIT

CURRENT YEAR

None.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

None.

DIAMOND STATE PORT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

PART C: FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

DEPARTMENT OF HOMELAND SECURITY

05-1 Urban Areas Security Initiative Program-CFDA No. 97.008

Condition: The Corporation did not complete suspension and debarment documentation and verification for either of two contracts selected for testing. However, neither contractor was found to be suspended or debarred upon review during the audit. The total amount paid through the two contracts was \$1,439,175.

Criteria: Nonfederal Entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 (\$25,000 after November 26, 2003).

When a nonfederal entity enters into a covered transaction, it must verify that the entity is not suspended or debarred. The verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a condition to the contract.

Effect: Awards may inadvertently be made to suspended or debarred entities.

Cause: The Corporation was not aware of the suspension and debarment requirement upon receiving federal awards.

Recommendation: We recommend that the Corporation implement controls to include in its requests for proposals a request for the respondent to certify that it is not on the suspended or debarred listing or, when not obtained, checking for suspended and debarred parties in the EPLS.

Auditee Response: The Corporation is now taking steps to incorporate wording in its standard Request for Proposal as well as contract documents that disqualify vendors included on the Federal suspension and debarment list from being awarded any federally funded contract of the Corporation. The Corporation will amend its procedures to include the checking of the Federal suspension and debarment list prior to awarding a federally funded contract in the future.

DIAMOND STATE PORT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

DEPARTMENT OF HOMELAND SECURITY

05-2 Urban Areas Security Initiative Program-CFDA No. 97.008

Condition: The Corporation capitalized and placed into service improvements purchased partly with federal funds, with the federal portion amounting to \$65,000. These improvements were not identified as being purchased with federal funds in the Corporation's fixed asset records.

Criteria: Accurate records must be maintained on all acquisitions of property made with federal funds, including a description, source, acquisition date, cost and percentage of federal participation.

Effect: The federal awarding agency would not be appropriately reimbursed for dispositions of property acquired with federal funds if this property were to be sold in the future.

Cause: The Corporation was not aware of the requirements pertaining to separate identification of property acquired with federal funds.

Recommendation: We recommend that the Corporation implement controls in its fixed asset recording procedures which include separate identification of assets purchased with federal funds.

Auditee Response: The Corporation adjusted its books as of June 30. Any and all assets purchased with Federal Funds are now shown in separate/segregated accounts within the General Ledger. The accounts set up were not only for the assets, but also for accumulated depreciation and construction-in-progress (CIP). The back up for the Federal assets are kept via Excel spreadsheets that specifically depict exactly what has been purchased with the Federal Funds. This includes CIP of over \$1.3 million for the Security project as well as other federally funded capital projects from prior years. The Fixed Asset sub ledger, being closed by the time of audit, will be reworked to match the General Ledger.